

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HART	County OCEANA
Fiscal Year End 6/30/06	Opinion Date 9/27/06	Date Audit Report Submitted to State 10/18/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

2006

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No single audit or other reports required	
Certified Public Accountant (Firm Name) Brickley DeLong, PLC		Telephone Number 231-726-5800	
Street Address 500 Terrace Plaza, P.O. Box 999		City Muskegon	State MI
Authorizing CPA Signature <i>Timothy D. Arter, C.P.A. for Brickley DeLong, PLC</i>		Printed Name TIMOTHY D. ARTER	License Number 10253

City of Hart
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

City of Hart
LIST OF ELECTED AND APPOINTED OFFICIALS

Mayor Clancy Aerts

Mayor Pro Tem.....Betty Root

City Council..... Brett Beachum
Steve Hegedus
Susan Krajewski
Ron LaPorte
Mickey VanBergen

APPOINTED OFFICIALS

City Manager Stanley Rickard

Clerk/Treasurer Louise Stevens

City of Hart

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This discussion and analysis is intended to serve as an introduction to the City of Hart's (City) basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2006. The City's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year the City of Hart had total assets of \$24,744,278 and total liabilities of \$7,822,093 leaving net assets of \$16,922,185. Of this amount, \$6,662,349 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors. The City has heavy infrastructure investments in hydro electric, water, sewer, and wastewater treatment facilities evidenced by business-type total net assets of \$15,770,535, about 93% of total net assets.

Business-type functions had operating income of \$83,807 comprised of \$323,512 hydro income and a \$239,709 loss in water/sewer operations. In 2005, hydro operating income was \$277,596 and water/sewer operating loss was \$331,210. Utility services benefited from rate adjustments effective on July 1, 2005 which improved operating income.

The General Fund ended the year with a fund balance of \$103,177, an increase of \$9,865 from fiscal 2005. The unreserved General Fund balance was \$87,903 compared to \$78,038 in 2005. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 8% of the General Fund expenditures.

The City ended the year with a deficit in one non-major fund. The Creeks Special Assessment District Fund had a deficit of \$38,554. This deficit will be eliminated through collection of special assessments, future operations and operating transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include hydro electric and water and sewer services.

The Statement of Net Assets and the Statement of Activities include not only the City of Hart itself (known as the primary government), but also a discretely presented component unit. Component units are separate legal entities for which the City has some level of financial accountability. The City has one component unit: the Tax Increment Finance Authority (TIFA). The component unit exists primarily to finance capital projects in specific areas of the City.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains several governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Hart has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its hydro electric and water/sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2006 the City's net assets from governmental activities totaled \$1,151,650 and \$15,770,535 from business-type activities, for a government-wide net asset total of \$16,922,185.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

For governmental activities, there were no significant capital assets acquired and noncurrent liabilities were reduced through payments on debt.

For business-type activities, capital assets decreased from the prior year in part through the sale of a 138 kV electric line and current year depreciation. Noncurrent liabilities were reduced through payments on debt.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets and						
other assets	\$ 1,296,370	\$ 1,313,836	\$ 7,476,590	\$ 7,472,954	\$ 8,772,960	\$ 8,786,790
Capital assets	1,086,392	1,100,578	14,884,926	15,450,152	15,971,318	16,550,730
Total assets	2,382,762	2,414,414	22,361,516	22,923,106	24,744,278	25,337,520
Current liabilities	154,399	127,985	911,154	850,518	1,065,553	978,503
Noncurrent liabilities	1,076,713	1,177,746	5,679,827	6,262,849	6,756,540	7,440,595
Total liabilities	1,231,112	1,305,731	6,590,981	7,113,367	7,822,093	8,419,098
Net assets						
Invested in capital						
assets, net of						
related debt	844,789	790,554	8,856,071	8,710,439	9,700,860	9,500,993
Restricted	95,374	73,694	463,602	374,588	558,976	448,282
Unrestricted	211,487	244,435	6,450,862	6,724,712	6,662,349	6,969,147
Total net assets	\$ 1,151,650	\$ 1,108,683	\$ 15,770,535	\$ 15,809,739	\$ 16,922,185	\$ 16,918,422

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 229,275	\$ 219,705	\$ 4,513,836	\$ 4,064,834	\$ 4,743,111	\$ 4,284,539
Operating grants						
contributions	153,824	154,549	-	-	153,824	154,549
Capital grants and						
contributions	37,628	78,697	-	126,207	37,628	204,904
	420,727	452,951	4,513,836	4,191,041	4,934,563	4,643,992

Changes in Net Assets—Continued

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:—Continued						
General revenues						
Property taxes	\$ 734,671	\$ 701,528	\$ -	\$ -	\$ 734,671	\$ 701,528
Franchise fees	15,400	14,421	-	-	15,400	14,421
Grants and contributions						
not restricted	196,372	197,706	-	-	196,372	197,706
Unrestricted investment						
earnings	23,350	9,959	230,822	211,786	254,172	221,745
Miscellaneous	12,720	21,719	-	-	12,720	21,719
Gain on sale of						
of capital asset	2,002	-	-	-	2,002	-
Total revenues	<u>1,405,242</u>	<u>1,398,284</u>	<u>4,744,658</u>	<u>4,402,827</u>	<u>6,149,900</u>	<u>5,801,111</u>
Expenses:						
General government	228,451	245,076	-	-	228,451	245,076
Public safety	350,110	353,116	-	-	350,110	353,116
Public works	570,223	650,143	-	-	570,223	650,143
Community and economic						
development	16,967	19,755	-	-	16,967	19,755
Culture and recreation	87,235	85,053	-	-	87,235	85,053
Interest on long term debt	52,019	56,934	-	-	52,019	56,934
Hydro	-	-	2,976,022	2,618,461	2,976,022	2,618,461
Water and Sewer	-	-	1,865,110	1,852,883	1,865,110	1,852,883
Sewer Fund	-	-	-	-	-	-
Total expenses	<u>1,305,005</u>	<u>1,410,077</u>	<u>4,841,132</u>	<u>4,471,344</u>	<u>6,146,137</u>	<u>5,881,421</u>
Change in net assets						
before transfers	100,237	(11,793)	(96,474)	(68,517)	3,763	(80,310)
Transfers	(57,270)	(45,034)	57,270	45,034	-	-
Change in net assets	42,967	(56,827)	(39,204)	(23,483)	3,763	(80,310)
Net assets - Beginning	1,108,683	1,165,510	15,809,739	15,833,222	16,918,422	16,998,732
Net assets - Ending	<u>\$ 1,151,650</u>	<u>\$ 1,108,683</u>	<u>\$ 15,770,535</u>	<u>\$ 15,809,739</u>	<u>\$ 16,922,185</u>	<u>\$ 16,918,422</u>

At year-end, on June 30, 2006, net assets increased by \$42,967 in governmental activities and decreased by \$39,204 in business-type activities, an increase of \$3,763 government-wide.

Governmental Activities

Overall, revenues increased in fiscal year 2006 primarily due to increased charges for services resulting from rate adjustments for trash services and an increase in investment earnings resulting from higher interest rates. A light capital improvement program in fiscal year 2006 reduced the capital grants and contributions. Expenses decreased due to a drop in public works expense. Most other expense categories were very comparable to the prior year.

Business-type Activities

Operating revenues in the Hydro and Water/Sewer funds totaled \$4,513,836 comprised of \$3,155,139 in Hydro and \$1,358,697 in Water/Sewer. Operating revenues increased in both funds due to higher metered sales and the effects of rate increases in both utilities. Subtracting operating expenses, Hydro experienced operating income of \$323,512 and Water/Sewer posted an operating loss of \$239,705 for a net operating income for business-type activities of \$83,807 compared to an operating loss of \$53,614 the prior year. Overall, net assets for business-type activities decreased by \$39,204 in the year ending June 30, 2006.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City of Hart uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the governmental funds reported a combined fund balance of \$237,477. Of this number, \$145,503 represents the unreserved fund balance, comprised of \$87,903 in the General Fund and \$57,600 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances of \$15,274, debt service of \$23,401, and capital projects of \$53,299.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$103,177, an increase of \$9,865 from fiscal 2005. The unreserved General Fund balance was \$87,903.

General Fund revenues exceeded expenses by \$104,489 before other financing sources and uses. After other financing sources and uses, the net change in fund balance was an increase of \$9,865. Combined with a beginning fund balance of \$93,312, the General Fund had a year-end fund balance of \$103,177 or 10% of total expenditures of \$1,054,728. Overall, in comparison to the previous year, General Fund revenues increased by \$58,155 and expenses increased by \$37,471. The increase in General Fund revenues can be attributed primarily to increased property taxes, investment earnings, and garbage fee collections. General Fund expenses increased in part due to wages, employee health benefits, and the purchase of police vehicles.

The net change in fund balance for all governmental funds was an increase of \$42,384.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. The City adopted new utility rates effective July 1, 2005. Combining rate and usage changes, business-type operating revenues (electric, water, sewer) increased by \$449,002 or 11%. Hydro revenues increased by \$305,675 (11%), and water/sewer revenues increased by \$143,327 (12%).

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The most significant General Fund budget matter for 2006 was property tax refunds due to changes in taxable value discovered after budget adoption which contributed in part to property taxes being under budget by \$33,674. Despite the refunds, General Fund property taxes increased by \$26,237 (4%) from the prior year. Investment earnings were over budget due to higher than expected interest rates.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 totaled \$15,971,318 (net of accumulated depreciation). Investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

The most significant capital improvements during the fiscal year 2006 was the purchase of two new police cars and additional transmission rights and land for the hydro system. In addition, the City has begun preliminary work done on the dam, two of the City's lift stations, and West Main Street that will be completed in the next fiscal year. This preliminary work is reflected in construction in progress.

Debt Administration

As of June 30, 2006, the City had outstanding long-term liabilities of \$7,448,640 consisting of general obligation bonds, Michigan Transportation Fund bonds, special assessment bonds, installment purchase agreements, compensated absences, revenue bonds, and contractual obligations.

These liabilities lie predominately in the enterprise funds in the amount of \$6,266,527, approximately 84% of the total. The largest source of debt consists of a contractual obligation in the amount of \$3,755,000 to Oceana County for the 2002 wastewater treatment plant expansion. On the governmental side of the City, the largest source of debt is outstanding Building Authority Bonds in the amount of \$815,000 for the library. No new debt was issued in the governmental funds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

State-shared revenues appear to be steady for fiscal year 2007 with revenues projected at \$187,000 as the State of Michigan agreed to maintain funding levels.

Property taxes are expected to remain fairly stable for fiscal year 2007 with modest increases anticipated through redevelopment efforts.

The street improvement millage rate of approximately 2 mills was reinstated by the voters in May 2005 for another 5-year term insuring revenues for street rehabilitation in the amount of about \$75,000 annually.

Garbage fees increased for fiscal 2007 by \$4 to \$16 per month. This projected increase is to add about \$37,000 to General Fund revenues. For the first time, projected fees collected in fiscal year 2007 will cover the total cost of garbage service in the amount of \$149,000.

Based on comprehensive studies by a professional rate analyst, utility rates were increased in December 2003, July 2005, and July 2006 to correct an ongoing imbalance between revenues and expenditures particularly in the Water/Sewer Fund. Overall, rates for water and sewer services were increased by 5% and 9%, respectively, in July of 2006.

The following capital improvements are underway in fiscal year 2007: voltage upgrade at the Lambrix Electric Substation; East Main and Griswold lift station replacements, West Main Street improvements, and concrete repairs at the hydroelectric dam. Financing for these improvements is assisted by State and Federal grants in the amount of \$683,000. Additional State and Federal grants are anticipated in 2007 in the amount of \$330,000 for future improvements for a total of \$1,013,000 in grant monies.

In calendar 2007, final payments will be made on \$392,000 of original debt issued for Griswold Street improvements and North Polk Road improvements.

In summary, the General Fund is stable but not improving its unrestricted fund balance beyond 8% of expenditures. The business-type functions of Hydro and Water/Sewer are improving due to improved sales and rate adjustments in recent years. However, both funds will be stressed in coming years due to current and pending capital improvements.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-873-2488. Hart City Hall, located at 407 State Street, Hart, MI 49420. Hart City Hall is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 27, 2006

City Council
City of Hart
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hart's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - viii and 34, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hart's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of Hart
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS				Component
	Governmental	Business-type	Total	Unit
	activities	activities		Tax Increment
				Finance
				Authority
CURRENT ASSETS				
Cash and investments	\$ 191,661	\$ 1,618,463	\$ 1,810,124	\$ 116,871
Receivables				
Trade	46,023	625,991	672,014	-
Special assessments	1,630	337,637	339,267	-
Notes	35,000	-	35,000	-
Due from other governmental units	86,529	-	86,529	-
Internal balances	(45,504)	45,504	-	-
Inventories	-	258,613	258,613	-
Total current assets	315,339	2,886,208	3,201,547	116,871
NONCURRENT ASSETS				
Restricted assets	-	463,602	463,602	-
Capital assets, net				
Nondepreciable	53,303	407,773	461,076	5,000
Depreciable	1,033,089	14,477,153	15,510,242	-
Bond issue costs, net	39,745	169,350	209,095	-
Special assessments receivable	161,286	3,957,430	4,118,716	-
Note receivable	780,000	-	780,000	-
Total noncurrent assets	2,067,423	19,475,308	21,542,731	5,000
Total assets	2,382,762	22,361,516	24,744,278	121,871
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	34,699	292,824	327,523	-
Customer deposits	-	31,630	31,630	-
Deferred revenue	14,300	-	14,300	-
Bonds and other obligations, due within one year	105,400	586,700	692,100	-
Total current liabilities	154,399	911,154	1,065,553	-
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	1,076,713	5,679,827	6,756,540	-
Total liabilities	1,231,112	6,590,981	7,822,093	-
NET ASSETS				
Invested in capital assets, net of related debt	844,789	8,856,071	9,700,860	-
Restricted for:				
Streets	25,974	-	25,974	-
Capital projects	53,299	-	53,299	-
Debt service	16,101	463,602	479,703	-
Unrestricted	211,487	6,450,862	6,662,349	121,871
Total net assets	\$ 1,151,650	\$ 15,770,535	\$ 16,922,185	\$ 121,871

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component Unit
					Governmental activities	Business-type activities	Total	Tax Increment Finance Authority
Primary government								
Governmental activities								
General government	\$ 228,451	\$ 144,849	\$ 2,100	\$ -	\$ (81,502)	\$ -	\$ (81,502)	\$ -
Public safety	350,110	5,377	5,953	-	(338,780)	-	(338,780)	-
Public works	570,223	6,132	145,771	-	(418,320)	-	(418,320)	-
Community and economic development	16,967	-	-	-	(16,967)	-	(16,967)	-
Culture and recreation	87,235	72,917	-	-	(14,318)	-	(14,318)	-
Interest on long-term debt	52,019	-	-	37,628	(14,391)	-	(14,391)	-
Total governmental activities	1,305,005	229,275	153,824	37,628	(884,278)	-	(884,278)	-
Business-type activities								
Hydro	2,976,022	3,155,139	-	-	-	179,117	179,117	-
Water and sewer	1,865,110	1,358,697	-	-	-	(506,413)	(506,413)	-
Total business-type activities	4,841,132	4,513,836	-	-	-	(327,296)	(327,296)	-
Total primary government	\$ 6,146,137	\$ 4,743,111	\$ 153,824	\$ 37,628	(884,278)	(327,296)	(1,211,574)	-
Component unit:								
Tax Increment Finance Authority								
Community and economic development	\$ 22,789	\$ -	\$ 7,000	\$ -	-	-	-	(15,789)
General revenues								
Property taxes, levied for								
General purposes					658,356	-	658,356	30,920
Specific purposes					76,315	-	76,315	-
Franchise fees					15,400	-	15,400	-
Grants and contributions not restricted to specific programs					196,372	-	196,372	-
Unrestricted investment earnings					23,350	230,822	254,172	2,459
Other					12,720	-	12,720	-
Gain on sale of capital asset					2,002	-	2,002	-
Transfers					(57,270)	57,270	-	-
Total general revenues and transfers					927,245	288,092	1,215,337	33,379
Change in net assets					42,967	(39,204)	3,763	17,590
Net assets at July 1, 2005					1,108,683	15,809,739	16,918,422	104,281
Net assets at June 30, 2006					\$ 1,151,650	\$ 15,770,535	\$ 16,922,185	\$ 121,871

The accompanying notes are an integral part of this statement.

City of Hart
BALANCE SHEET
 Governmental Funds
 June 30, 2006

	General Fund	Other governmental funds	Total governmental funds
ASSETS			
Cash and investments	\$ 40,996	\$ 150,665	\$ 191,661
Receivables			
Accounts	26,963	19,060	46,023
Special assessments	-	162,916	162,916
Due from other governmental units	63,509	23,020	86,529
Advances to other funds	15,274	-	15,274
Total assets	<u>\$ 146,742</u>	<u>\$ 355,661</u>	<u>\$ 502,403</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 13,628	\$ 3,074	\$ 16,702
Accrued liabilities	10,213	484	10,697
Due to other funds	19,724	2,500	22,224
Deferred revenue	-	176,749	176,749
Advances from other funds	-	38,554	38,554
Total liabilities	43,565	221,361	264,926
Fund balances (deficits)			
Reserved for:			
Advances	15,274	-	15,274
Debt service	-	23,401	23,401
Capital projects	-	53,299	53,299
Unreserved			
General Fund	87,903	-	87,903
Special revenue funds	-	96,154	96,154
Capital projects funds	-	(38,554)	(38,554)
Total fund balances (deficits)	<u>103,177</u>	<u>134,300</u>	<u>237,477</u>
Total liabilities and fund balances	<u>\$ 146,742</u>	<u>\$ 355,661</u>	<u>\$ 502,403</u>

The accompanying notes are an integral part of this statement.

City of Hart
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2006

Total fund balance—governmental funds	\$	237,477
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 1,843,872	
Accumulated depreciation	<u>(757,480)</u>	1,086,392

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	50,162	
Accumulated amortization	<u>(10,417)</u>	39,745

Other long-term note receivable in governmental activities is not reported in the
governmental funds.

815,000

Accrued interest in governmental activities is not reported in the governmental funds.

(7,300)

Special assessment revenue is not recognized until it is receivable in the current
period and therefore is shown as deferred revenue in the governmental funds.

162,449

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(1,096,348)	
Compensated absences	<u>(85,765)</u>	<u>(1,182,113)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 1,151,650

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Property taxes	\$ 658,356	\$ 76,315	\$ 734,671
Licenses and permits	22,414	-	22,414
Intergovernmental revenues			
State	197,950	145,771	343,721
Local	2,100	72,628	74,728
Charges for services	233,558	72,917	306,475
Fines and forfeitures	5,377	-	5,377
Investment earnings	19,796	3,554	23,350
Other	19,666	7,217	26,883
Total revenues	1,159,217	378,402	1,537,619
EXPENDITURES			
Current			
General government	223,730	-	223,730
Public safety	337,904	-	337,904
Public works	419,331	181,648	600,979
Community and economic development	16,967	-	16,967
Culture and recreation	7,302	69,333	76,635
Debt service			
Principal	7,396	56,280	63,676
Interest and fees	2,769	46,904	49,673
Capital outlay	39,329	43,988	83,317
Total expenditures	1,054,728	398,153	1,452,881
Excess of revenues over (under) expenditures	104,489	(19,751)	84,738
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	14,916	-	14,916
Transfers in	800	73,847	74,647
Transfers out	(110,340)	(21,577)	(131,917)
Total other financing sources (uses)	(94,624)	52,270	(42,354)
Net change in fund balances	9,865	32,519	42,384
Fund balances at July 1, 2005	93,312	101,781	195,093
Fund balances at June 30, 2006	\$ 103,177	\$ 134,300	\$ 237,477

The accompanying notes are an integral part of this statement.

City of Hart
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	42,384
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (87,656)	
Capital outlay	<u>83,317</u>	(4,339)

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities report only the gain or loss on the sale of capital assets.	(12,914)
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Payments received on the note receivable are reported as revenues in the governmental funds; the payments reduce the note receivable on the Statement of Net Assets.	(35,000)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	63,676
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	720
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(4,343)
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	<u>(7,217)</u>
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Change in net assets of governmental activities	<u><u>\$ 42,967</u></u>
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The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended June 30, 2006

	Business-type Activities - Enterprise funds		
	Hydro	Water and Sewer	Total
REVENUES			
Charges for services	\$ 3,155,139	\$ 1,358,697	\$ 4,513,836
OPERATING EXPENSES			
Administration	240,776	204,838	445,614
Operations	2,378,010	899,249	3,277,259
Depreciation and amortization	212,841	494,315	707,156
Total operating expenses	2,831,627	1,598,402	4,430,029
Operating income (loss)	323,512	(239,705)	83,807
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	43,776	187,046	230,822
Interest expense	(31,689)	(250,919)	(282,608)
Loss on disposal of capital assets	(112,706)	-	(112,706)
Payment to other governmental unit	-	(15,789)	(15,789)
Total nonoperating revenue (expenses)	(100,619)	(79,662)	(180,281)
Income (loss) before transfers	222,893	(319,367)	(96,474)
Transfers in	-	57,270	57,270
Change in net assets	222,893	(262,097)	(39,204)
Net assets at July 1, 2005	5,275,969	10,533,770	15,809,739
Net assets at June 30, 2006	\$ 5,498,862	\$ 10,271,673	\$ 15,770,535

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2006

	Business-type Activities - Enterprise funds		
	Hydro	Water and Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,740,920	\$ 1,321,737	\$ 4,062,657
Receipts from interfund services provided	342,746	3,223	345,969
Payments to suppliers	(2,244,702)	(565,457)	(2,810,159)
Payments to employees	(319,905)	(239,121)	(559,026)
Payments for interfund services used	(14,450)	(291,476)	(305,926)
Net cash provided by operating activities	504,609	228,906	733,515
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	57,270	57,270
Advances to other funds	26,103	-	26,103
Advances from other funds	-	(40,710)	(40,710)
Payment to other government	-	(15,789)	(15,789)
Net cash provided by noncapital and related financing activities	26,103	771	26,874
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessment collections	-	337,456	337,456
Purchases of capital assets	(334,743)	(140,150)	(474,893)
Principal paid on capital debt	(57,396)	(484,112)	(541,508)
Interest paid on capital debt	(32,529)	(255,027)	(287,556)
Proceeds from sale of capital assets	242,379	-	242,379
Net cash used for capital and related financing activities	(182,289)	(541,833)	(724,122)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment earnings	43,776	187,046	230,822
Net increase (decrease) in cash and investments	392,199	(125,110)	267,089
Cash and investments at July 1, 2005	1,376,180	438,796	1,814,976
Cash and investments at June 30, 2006	\$ 1,768,379	\$ 313,686	\$ 2,082,065
Reconciliation of cash and investments to the Statement of Net Assets			
Cash and investments	\$ 1,583,229	\$ 35,234	\$ 1,618,463
Restricted assets	185,150	278,452	463,602
	\$ 1,768,379	\$ 313,686	\$ 2,082,065
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 323,512	\$ (239,705)	\$ 83,807
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization expense	212,841	494,315	707,156
Change in assets and liabilities			
Receivables	(71,473)	(33,737)	(105,210)
Inventories	29,813	(6,126)	23,687
Accounts payable	6,733	15,383	22,116
Customer deposits	(1,600)	-	(1,600)
Accrued liabilities	268	(395)	(127)
Compensated absences	4,515	(829)	3,686
Net cash provided by operating activities	\$ 504,609	\$ 228,906	\$ 733,515

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2006

	Private Purpose Trust Fund <u>Historic District Commission</u>	Agency Fund <u>Tax Collection Fund</u>
ASSETS		
Cash and investments	\$ <u>15,542</u>	\$ <u>-</u>
NET ASSETS		
Held in trust for benefits and other purposes	\$ <u>15,542</u>	\$ <u>-</u>

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Fiduciary Funds
 For the year ended June 30, 2006

	Private Purpose Trust Fund
	<u>Historic District Commission</u>
Intergovernmental revenues - local	\$ 3,823
Investment earnings	<u>332</u>
Total additions	4,155
DEDUCTIONS	
Administrative expenses	<u>4,141</u>
Change in net assets	14
Net assets at July 1, 2005	<u>15,528</u>
Net assets at June 30, 2006	\$ <u><u>15,542</u></u>

The accompanying notes are an integral part of this statement.

City of Hart
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hart (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and a six-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. The discretely presented component unit has a June 30 fiscal year end.

Blended Component Unit

Building Authority. The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service and capital projects fund.

Discretely Presented Component Unit

The discretely presented component unit reported by the City is the Tax Increment Finance Authority (TIFA). The TIFA board is appointed by the City Council, but the board, after appointments, operates as a separate entity. The TIFA board can authorize and issue debt independent from the City. The TIFA is presented as a governmental fund type.

Related Organization

The City of Hart's cemetery is a related organization which is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the cemetery.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements—Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major proprietary funds:

The Water and Sewer Fund operates the City's sewage collection and treatment plant and water distribution systems.

The Hydro Fund purchases and distributes electricity to the residents of the City.

Additionally, the City reports the following fund types:

The private purpose simple trust fund is used to account for resources held in trust for the Historic District Commission.

The agency fund accounts for assets held by the City on behalf of others in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes levied on each July 1 on the taxable valuation of the property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables—Continued

The 2005 state taxable value for real/personal property of the City totaled approximately \$48,132,000 of which approximately \$1,280,000 was captured by the TIFA. The ad valorem taxes levied consisted of 12.68 mills for operation and 2.00 mills for street improvements. These amounts are recognized in the respective General Fund and Street Improvements Fund with captured amounts shown in the TIFA component unit.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since July 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings	30-50
Public domain infrastructure	20-30
System infrastructure and improvements	15-50
Vehicles and equipment	5-10

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

The City has established an “earned time off” (ETO) policy. ETO accumulates up to 32 hours per month, based on employee length of service. Maximum accumulation of 840 hours of general employees and 900 hours for police officers is allowed. ETO over the maximum accumulation is paid by the City at 50 percent of the excess accumulation at the close of each fiscal year. Upon non-disciplinary termination of employment, 75 percent of the accumulated ETO is paid.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Tuesday in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Fund Deficit

As of June 30, 2006, the Creeks Drive Fund had an accumulated deficit of \$38,554. The deficit will be eliminated through the collection of special assessments, future operations and operating transfers.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the City had the following investments:

	<u>Fair value</u>	<u>Weighted average maturity (Months)</u>	<u>Standard & Poor's</u>	<u>Percent</u>
Investment Type				
Money market mutual fund	\$ <u>221,080</u>	36	AAAm	<u>100.0</u> %

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS—CONTINUED

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The City does not have a concentration of credit risk policy. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2006, \$1,928,934 of the City's bank balance of \$2,243,691 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2006, restricted cash and investments in the Enterprise funds are restricted as follows:

Business-type activities

Water and Sewer Fund	
Bond reserve fund	\$ 263,837
Bond and interest redemption fund	14,615
Hydro Fund	
Bond reserve fund	97,158
Bond and interest redemption fund	<u>87,992</u>
	<u>\$ 463,602</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

NOTE D—NOTE RECEIVABLE

The Building Authority Capital Projects Fund sold a building that it constructed to Hart District Library through a capital lease. The agreement requires annual payments of \$35,000 to \$70,000 plus interest at rates varying from 3.5 percent to 5 percent through June 2022.

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,315	\$ -	\$ -	\$ 9,315
Construction in progress	<u>-</u>	<u>43,988</u>	<u>-</u>	<u>43,988</u>
Total capital assets, not being depreciated	9,315	43,988	-	53,303
Capital assets, being depreciated:				
Land improvements	31,710	-	-	31,710
Buildings and improvements	568,825	-	-	568,825
Vehicles and equipment	651,409	39,329	38,365	652,373
Infrastructure	<u>537,661</u>	<u>-</u>	<u>-</u>	<u>537,661</u>
Total capital assets, being depreciated	1,789,605	39,329	38,365	1,790,569
Less accumulated depreciation:				
Land improvements	951	1,269	-	2,220
Buildings and improvements	288,386	6,210	-	294,596
Vehicles and equipment	388,695	50,034	25,451	413,278
Infrastructure	<u>20,310</u>	<u>27,076</u>	<u>-</u>	<u>47,386</u>
Total accumulated depreciation	<u>698,342</u>	<u>84,589</u>	<u>25,451</u>	<u>757,480</u>
Total capital assets, being depreciated, net	<u>1,091,263</u>	<u>(45,260)</u>	<u>12,914</u>	<u>1,033,089</u>
Capital assets, net	<u>\$ 1,100,578</u>	<u>\$ (1,272)</u>	<u>\$ 12,914</u>	<u>\$ 1,086,392</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 234,542	\$ 90,573	\$ -	\$ 325,115
Construction in progress	<u>-</u>	<u>82,658</u>	<u>-</u>	<u>82,658</u>
Total capital assets, not being depreciated	234,542	173,231	-	407,773

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Business-type activities:—Continued				
Capital assets, being depreciated:				
Hydro system	\$ 7,379,179	\$ 230,504	\$ 377,750	\$ 7,231,933
Water system	3,084,063	60,533	5,100	3,139,496
Sewer system	12,817,955	10,625	-	12,828,580
Furniture and equipment	663,752	-	7,509	656,243
Total capital assets, being depreciated	23,944,949	301,662	390,359	23,856,252
Less accumulated depreciation:				
Hydro system	3,592,291	181,733	22,665	3,751,359
Water system	1,518,558	88,451	5,100	1,601,909
Sewer system	3,213,435	371,395	-	3,584,830
Furniture and equipment	405,055	43,455	7,509	441,001
Total accumulated depreciation	8,729,339	685,034	35,274	9,379,099
Total capital assets, being depreciated, net	15,215,610	(383,372)	355,085	14,477,153
Capital assets, net	\$ 15,450,152	\$ (210,141)	\$ 355,085	\$ 14,884,926

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 3,721
Public safety	10,536
Public works	55,426
Culture and recreation	14,906
	<u>\$ 84,589</u>

Business-type activities:

Hydro	\$ 210,208
Water and sewer	474,826
	<u>\$ 685,034</u>

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Component unit:				
Capital assets, not being depreciated:				
Tax Increment Finance Authority				
Land	\$ -	\$ 5,000	\$ -	\$ 5,000

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental activities				
Bond issuance costs	\$ 50,162	\$ -	\$ -	\$ 50,162
Less accumulated amortization:	7,350	3,067	-	10,417
Bond issuance costs, net	\$ 42,812	\$ (3,067)	\$ -	\$ 39,745
Business-type activities				
Bond issuance costs	\$ 316,008	\$ -	\$ -	\$ 316,008
Less accumulated amortization:	124,540	22,123	-	146,663
Bond issuance costs, net	\$ 191,468	\$ (22,123)	\$ -	\$ 169,345

Amortization

Amortization expense has been charged to the following functions:

Governmental activities	
Interest on long-term debt	\$ 3,067
Business-type activities	
Water and Sewer	\$ 19,490
Hydro	2,633
	\$ 22,123

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE G—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Hydro Fund	Other governmental funds	\$ 2,500

Advances to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 15,274
Hydro Fund	General Fund	19,724
Hydro Fund	Water and Sewer Fund	193,498
Hydro Fund	Other governmental funds	38,554
		<u>\$ 267,050</u>

The outstanding balances between funds results mainly from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers:

	<u>Transfers in:</u>			<u>Total</u>	<u>Purpose</u>
	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Water and Sewer Fund</u>		
Transfers out:					
General Fund	\$ -	\$ 55,140	\$ 55,200	\$ 110,340	Operations subsidy
Other governmental funds	800	18,707	2,070	21,577	Operations subsidy
	<u>\$ 800</u>	<u>\$ 73,847</u>	<u>\$ 57,270</u>	<u>\$ 131,917</u>	

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 162,449	\$ -
Camping fees	<u>-</u>	<u>14,300</u>
Total deferred revenue for governmental funds	\$ <u>162,449</u>	\$ <u>14,300</u>

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 930,000	\$ -	\$ 40,000	\$ 890,000	\$ 40,000
Michigan Transportation					
Fund bonds	60,000	-	20,000	40,000	20,000
Special assessment bonds	166,454	-	1,280	165,174	1,300
Installment purchase					
agreements	3,570	-	2,396	1,174	1,100
Compensated absences	<u>81,422</u>	<u>47,221</u>	<u>42,878</u>	<u>85,765</u>	<u>43,000</u>
Governmental activity					
long-term liabilities	<u>\$ 1,241,446</u>	<u>\$ 47,221</u>	<u>\$ 106,554</u>	<u>\$ 1,182,113</u>	<u>\$ 105,400</u>
Business-type activities:					
Special assessment bonds	\$ 533,546	\$ -	\$ 18,720	\$ 514,826	\$ 18,700
Revenue bonds	2,035,000	-	210,000	1,825,000	210,000
Contractual obligations	4,050,000	-	295,000	3,755,000	310,000
Installment purchase					
agreements	121,168	-	17,789	103,379	13,900
Compensated absences	<u>64,636</u>	<u>36,722</u>	<u>33,036</u>	<u>68,322</u>	<u>34,100</u>
Business-type activity					
long-term liabilities	<u>\$ 6,804,350</u>	<u>\$ 36,722</u>	<u>\$ 574,545</u>	<u>\$ 6,266,527</u>	<u>\$ 586,700</u>

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities

General obligation bonds:

\$950,000 Building Authority Bonds of 2003
payable in annual installments of \$35,000
to \$70,000 through June 2022; interest at
rates varying from 3.5% to 5% \$ 815,000

\$85,000 General Obligation Bonds of
2004 payable in annual installments of
\$5,000 to \$10,000 through September
2013; interest at rates varying from 3.2%
to 4% 75,000

Michigan Transportation Funds bonds:

\$250,000 Transportation Fund Bonds of
1993 payable in annual installments of
\$20,000 through August 2007; interest at
5.8% 40,000

Special assessment bonds:

\$166,454 Special Assessment Bonds of
2004 payable in annual installments of
\$1,300 to \$26,800 through September
2013; interest at rates varying from 3% to
4% 165,174

Installment purchase agreements:

\$11,474 Note payable to bank; final
payment due September 2006; interest at
3.3% 1,174
1,096,348
85,765
\$ 1,182,113

Compensated absences

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities

Revenue bonds:

\$1,715,000 Water and Sewer Revenue
Refunding Bonds of 1998 payable in annual
installments of \$110,000 to \$175,000
through July 2012; interest at rates varying
from 4.8% to 5.2% \$ 840,000

\$420,000 Water and Sewer Revenue Bonds
of 2001 payable in annual installments of
\$45,000 to \$50,000 through July 2011;
interest at rates varying from 4% to 4.5% 235,000

\$950,000 Electric Supply System Revenue
Bonds of 2002 payable in annual
installments of \$55,000 to \$85,000 through
April 2017; interest at rates varying from
3% to 4.7% 750,000

Special assessment bonds:

\$142,000 Special Assessment Bonds of 1998
payable in annual installments of \$15,000 to
\$20,000 through September 2007; interest at
4.4% 35,000

\$483,546 Special Assessment Bonds of 2004
payable in annual installments of \$3,700 to
\$77,700 through September 2013; interest at
rates varying from 3% to 4% 479,826

Contractual obligations:

\$5,165,000 obligation to Oceana County
payable in annual installments of \$310,000
to \$455,000 through November 2015;
interest at rates varying from 3.8% to 4.85% 3,755,000

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:—Continued

Installment purchase agreements:

\$42,026 Note payable to bank; final
payment due September 2006; interest at
3.5% \$ 4,420

\$108,000 Note payable to bank due in annual
installments, including interest, of
approximately \$13,300 through September
2014; interest at 3.95% 98,959

Compensated absences 6,198,205

68,322
\$ 6,266,527

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The City's water and sewer bond rating is rated "below investment grade".

The general obligation and special assessment bonds are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all the revenue bond covenants at June 30, 2006.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2006 follows:

Year ending June 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2007	\$ 62,400	\$ 46,200	\$ 552,600	\$ 264,500
2008	91,800	43,100	648,000	241,000
2009	71,800	40,000	648,400	214,500
2010	71,800	37,500	658,800	189,800
2011	73,000	35,000	712,900	157,900
2012-2016	350,600	132,000	2,892,500	352,200
2017-2021	305,000	64,200	85,005	4,043
2022	69,948	3,575	-	-
	<u>\$ 1,096,348</u>	<u>\$ 401,575</u>	<u>\$ 6,198,205</u>	<u>\$ 1,423,943</u>

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there was one retired employee receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2006, the City's post-retirement health care cost under the Plan was approximately \$8,200.

Commitments

At June 30, 2006, the City had entered into various agreements for construction projects. Below is a summary of those agreements.

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Hydro	Dam improvements and substation upgrades	\$ 12,267	\$ 83,743

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—OTHER INFORMATION—Continued

Segment Information

The following is a summary of segment information for the City's water and sewer functions.

	Water	Sewer	Combined
Condensed Statement of Net Assets			
Current assets	\$ 364,209	\$ 234,030	\$ 598,239
Capital assets, net	1,614,307	9,437,950	11,052,257
Other assets	180,921	4,195,348	4,376,269
Total assets	<u>2,159,437</u>	<u>13,867,328</u>	<u>16,026,765</u>
Current portion of long-term debt	10,900	492,300	503,200
Other current liabilities	5,770	79,860	85,630
Long-term liabilities, net of current portion of long-term debt	273,859	4,683,631	4,957,490
Advances from other funds	-	208,772	208,772
Total liabilities	<u>290,529</u>	<u>5,464,563</u>	<u>5,755,092</u>
Invested in capital assets, net of related debt	1,329,548	4,416,065	5,745,613
Restricted	-	278,452	278,452
Unrestricted	<u>539,360</u>	<u>3,708,248</u>	<u>4,247,608</u>
Total net assets	<u>\$ 1,868,908</u>	<u>\$ 8,402,765</u>	<u>\$ 10,271,673</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 290,684	\$ 1,068,013	\$ 1,358,697
Operating expenses			
Administration	75,820	129,018	204,838
Operations	106,510	792,739	899,249
Depreciation and amortization	96,920	397,395	494,315
Operating income (loss)	<u>11,434</u>	<u>(251,139)</u>	<u>(239,705)</u>
Nonoperating revenues (expenses)			
Investment earnings	5,118	181,928	187,046
Interest expense	(10,588)	(240,331)	(250,919)
Payment to other governmental unit	-	(15,789)	(15,789)
Transfers in	<u>-</u>	<u>57,270</u>	<u>57,270</u>
Change in net assets	5,964	(268,061)	(262,097)
Net assets at July 1, 2005	<u>1,862,944</u>	<u>8,670,826</u>	<u>10,533,770</u>
Net assets at June 30, 2006	<u>\$ 1,868,908</u>	<u>\$ 8,402,765</u>	<u>\$ 10,271,673</u>

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—OTHER INFORMATION—Continued

Segment Information—Continued

	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Condensed Statement of Cash Flows			
Net cash provided by operating activities	\$ 98,913	\$ 129,993	\$ 228,906
Net cash provided by noncapital financing activities	-	771	771
Net cash used for capital and related financing activities	(74,026)	(467,807)	(541,833)
Net cash provided by investing activities	<u>5,118</u>	<u>181,928</u>	<u>187,046</u>
Net increase (decrease) in cash and investments	30,005	(155,115)	(125,110)
Cash and investments at July 1, 2005	<u>264,759</u>	<u>174,037</u>	<u>438,796</u>
Cash and investments at June 30, 2006	<u><u>\$ 294,764</u></u>	<u><u>\$ 18,922</u></u>	<u><u>\$ 313,686</u></u>

NOTE K—PENSION PLANS

Defined Contribution Plan

The City provides pension benefits for all its full-time employees through a money purchase defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried and hourly employees who have attained the age of 21 and have completed six months of service shall be eligible to participate in the plan. The City is required to contribute an amount equal to 4.5 to 5.0 percent of employee's annual compensation, depending on employee group. Employees are required to contribute 2 percent of annual compensation. Employees may also make additional voluntary contributions. The City's contributions for each employee (and earnings allocated to the employee's account) are vested after five years of service. Any forfeitures are reallocated to participants. Plan provision and contribution requirements are established and may be amended by the City Council.

For fiscal year 2006, the City's contribution to the defined contribution plan was \$33,221, and the employee contributions were \$15,671.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The City does not contribute to the Plan.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

City of Hart
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE L—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 17 percent of General Fund revenues.

The City's Hydro and Water/Sewer Funds have a significant economic dependence on three local corporations that are major users of utility services. During the year ended June 30, 2006, the corporations' billings for utilities approximated 26 percent of total billings in the Hydro Fund and 55 percent of total billings in the Water and Sewer Fund.

NOTE M—SUBSEQUENT EVENTS

Subsequent to year end, the City entered into commitments of approximately \$1,012,000 for electrical substation upgrades and dam repairs. The City intends to issue revenue bonds to finance part of this project. The City also entered into commitments of approximately \$185,000 for street improvements.

In September 2006, the City entered into commitments of approximately \$840,000 for lift station improvements. The improvements will be paid with \$393,000 in grant money, \$300,000 in revenue bonds, and available net assets. In September 2006, the City issued \$300,000 in revenue bonds to fund the project.

REQUIRED SUPPLEMENTARY INFORMATION

City of Hart
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 693,260	\$ 692,030	\$ 658,356	\$ (33,674)
Licenses and permits	16,800	16,800	22,414	5,614
Intergovernmental revenues				
State	189,600	189,600	197,950	8,350
Local	2,100	2,100	2,100	-
Charges for services	189,440	221,850	233,558	11,708
Fines and forfeitures	5,100	5,100	5,377	277
Investment earnings	3,000	2,540	19,796	17,256
Other	9,110	9,110	19,666	10,556
Total revenues	1,108,410	1,139,130	1,159,217	20,087
EXPENDITURES				
Current				
General government				
City council	12,770	11,400	11,383	17
Administrative	103,790	110,400	110,343	57
Elections	5,600	2,700	2,687	13
Assessor	51,470	50,300	50,240	60
Attorney	19,000	18,300	18,218	82
City hall	15,830	17,400	17,359	41
Cemetery	10,000	13,500	13,500	-
Public safety				
Police	280,810	302,970	302,958	12
Fire	35,000	34,946	34,946	-
Public works				
Department of public works	245,880	268,405	268,319	86
Solid waste	138,700	139,015	139,012	3
Street lighting	12,000	12,000	12,000	-
Community and economic development	29,500	17,000	16,967	33
Culture and recreation	14,150	9,694	7,302	2,392
Debt service				
Principal	7,400	7,400	7,396	4
Interest and fees	2,770	2,770	2,769	1
Capital outlay	19,700	39,330	39,329	1
Total expenditures	1,004,370	1,057,530	1,054,728	2,802
Excess of revenues over (under) expenditures	104,040	81,600	104,489	22,889
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	6,000	6,000	14,916	8,916
Transfers in	-	-	800	800
Transfers out	(103,130)	(110,340)	(110,340)	-
Total other financing sources (uses)	(97,130)	(104,340)	(94,624)	9,716
Net change in fund balance	\$ 6,910	\$ (22,740)	9,865	\$ 32,605
Fund balance at July 1, 2005			93,312	
Fund balance at June 30, 2006			\$ 103,177	

OTHER SUPPLEMENTAL INFORMATION

City of Hart
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2006

	Total other governmental funds	Special Revenue					Capital Projects				Debt Service	
		Major Street	Local Street	Park	Woodlawn Street Special Assessment	Solid Waste Alternative Program	Street Improvements	Enterprise Drive	Creeks Drive	Building Authority- Library	1993 MTF Bonds Debt Retire	Library Debt
ASSETS												
Cash and investments	\$ 150,665	\$ 1,434	\$ 4,470	\$ 24,238	\$ 33	\$ 40,716	\$ 51,059	\$ 5,314	\$ -	\$ -	\$ 16,215	\$ 7,186
Receivables												
Accounts	19,060	-	-	19,060	-	-	-	-	-	-	-	-
Special assessments	162,916	-	-	-	467	-	-	11,409	151,040	-	-	-
Due from other governmental units	23,020	15,945	7,075	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 355,661</u>	<u>\$ 17,379</u>	<u>\$ 11,545</u>	<u>\$ 43,298</u>	<u>\$ 500</u>	<u>\$ 40,716</u>	<u>\$ 51,059</u>	<u>\$ 16,723</u>	<u>\$ 151,040</u>	<u>\$ -</u>	<u>\$ 16,215</u>	<u>\$ 7,186</u>
LIABILITIES AND FUND BALANCES (DEFICITS)												
Liabilities												
Accounts payable	\$ 3,074	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,074	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	484	254	196	34	-	-	-	-	-	-	-	-
Due to other funds	2,500	-	2,500	-	-	-	-	-	-	-	-	-
Deferred revenue	176,749	-	-	14,300	-	-	-	11,409	151,040	-	-	-
Advances from other funds	38,554	-	-	-	-	-	-	-	38,554	-	-	-
Total liabilities	221,361	254	2,696	14,334	-	-	3,074	11,409	189,594	-	-	-
Fund balances (deficits)												
Reserved for:												
Debt service	23,401	-	-	-	-	-	-	-	-	-	16,215	7,186
Capital projects	53,299	-	-	-	-	-	47,985	5,314	-	-	-	-
Unreserved	57,600	17,125	8,849	28,964	500	40,716	-	-	(38,554)	-	-	-
Total fund balances (deficits)	134,300	17,125	8,849	28,964	500	40,716	47,985	5,314	(38,554)	-	16,215	7,186
Total liabilities and fund balances	<u>\$ 355,661</u>	<u>\$ 17,379</u>	<u>\$ 11,545</u>	<u>\$ 43,298</u>	<u>\$ 500</u>	<u>\$ 40,716</u>	<u>\$ 51,059</u>	<u>\$ 16,723</u>	<u>\$ 151,040</u>	<u>\$ -</u>	<u>\$ 16,215</u>	<u>\$ 7,186</u>

City of Hart
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Other Governmental Funds
For the year ended June 30, 2006

	Total other governmental funds	Special Revenue					Capital Projects				Debt Service	
		Major Street	Local Street	Park	Woodlawn Street Special Assessment	Solid Waste Alternative Program	Street Improvements	Enterprise Drive	Creeks Drive	Building Authority- Library	1993 MTF Bonds Debt Retire	Library Debt
REVENUES												
Property taxes	\$ 76,315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,315	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues												
State	145,771	99,745	46,026	-	-	-	-	-	-	-	-	-
Local	72,628	-	-	-	-	-	-	-	-	-	-	72,628
Charges for services	72,917	-	-	72,917	-	-	-	-	-	-	-	-
Investment earnings	3,554	177	18	632	56	-	1,625	571	-	6	412	57
Other	7,217	-	-	-	467	-	-	1,630	5,120	-	-	-
Total revenues	378,402	99,922	46,044	73,549	523	-	77,940	2,201	5,120	6	412	72,685
EXPENDITURES												
Current												
Public works	181,648	87,365	94,283	-	-	-	-	-	-	-	-	-
Culture and recreation	69,333	-	-	69,333	-	-	-	-	-	-	-	-
Debt service												
Principal	56,280	-	-	-	-	-	-	1,280	-	-	20,000	35,000
Interest and fees	46,904	-	-	-	-	-	-	6,126	-	-	2,900	37,878
Capital outlay	43,988	-	-	-	-	-	43,988	-	-	-	-	-
Total expenditures	398,153	87,365	94,283	69,333	-	-	43,988	7,406	-	-	22,900	72,878
Excess of revenues over (under) expenditures	(19,751)	12,557	(48,239)	4,216	523	-	33,952	(5,205)	5,120	6	(22,488)	(193)
OTHER FINANCING SOURCES (USES)												
Transfers in	73,847	-	49,400	-	-	-	-	-	-	-	21,740	2,707
Transfers out	(21,577)	(16,000)	-	-	(800)	-	(2,070)	-	-	(2,707)	-	-
Total other financing sources (uses)	52,270	(16,000)	49,400	-	(800)	-	(2,070)	-	-	(2,707)	21,740	2,707
Net change in fund balances	32,519	(3,443)	1,161	4,216	(277)	-	31,882	(5,205)	5,120	(2,701)	(748)	2,514
Fund balances (deficits) at July 1, 2005	101,781	20,568	7,688	24,748	777	40,716	16,103	10,519	(43,674)	2,701	16,963	4,672
Fund balances (deficits) at June 30, 2006	<u>\$ 134,300</u>	<u>\$ 17,125</u>	<u>\$ 8,849</u>	<u>\$ 28,964</u>	<u>\$ 500</u>	<u>\$ 40,716</u>	<u>\$ 47,985</u>	<u>\$ 5,314</u>	<u>\$ (38,554)</u>	<u>\$ -</u>	<u>\$ 16,215</u>	<u>\$ 7,186</u>

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2006

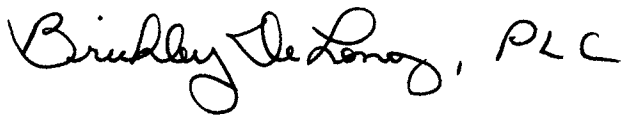
City Council
City of Hart
Hart, Michigan

In planning and performing our audit of the financial statements of the City of Hart for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Hart's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe recommendation 1 on the attached summary is a material weakness.

This report is intended for the information of the City of Hart, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESS

We consider the following material weakness contained in our October 4, 2004 letter as still applicable:

Recommendation 1: Bank reconciliations should be reconciled to the general ledger on a monthly basis.

During our testing, we noted that monthly bank reconciliations were not reconciled to the general ledger in a timely manner.

Reconciliations for all bank accounts should be reconciled to the general ledger on a monthly basis. This procedure is essential to provide accurate interim financial statements.